

13 December 2012

Report of the Portfolio Holder, Core Services and Assets**Technical Reforms of Council Tax****EXEMPT INFORMATION**

None

PURPOSE

The report seeks Council approval for proposed amendments to Council Tax discounts and outlines several reforms to the Council Tax system arising from the Local Government Finance Bill 2012.

RECOMMENDATIONS**That Council**

- 1. Approve the following changes to Council Tax discounts and exemptions with effect from 1 April 2013:**
 - a. The removal of the 50% second homes discount so that all second homes are liable for full Council Tax;**
 - b. The granting of a 50% discount on properties undergoing structural work for up to 12 months;**
 - c. The granting of a 100% discount for 2 months on dwellings which are empty and unfurnished. After this period a full charge shall apply;**
 - d. The levying of the maximum allowable additional premium of 50% on properties that have been empty for two or more years.**
- 2. Endorse the other technical matters identified;**
- 3. Acknowledge the potential requirement for additional resource.**
- 4. Acknowledge that with effect 1st April 2013 the Authority charges recovery costs of £60 on the issue of a summons and a further £35 if a liability order is awarded to allow for increased recovery costs (as identified in 3. above).**

EXECUTIVE SUMMARY

The report sets out the Council's approach to the technical reforms of Council Tax proposed in the Local Government Finance Bill 2012. In addition it proposes a proactive approach in light of the economic conditions and upcoming changes in technical reforms as well as changes in support for Council Tax and Business Rates Retention with effect from 1 April 2013.

Since the presentation on technical reforms of Council Tax to members on 25 July 2012 the Government has revised the 6 month rule in respect of empty properties. In addition there has been a revision of estimated income to be raised from imposing an empty homes premium on properties which are empty for over 2 years.

As a result of the additional charges and workload created in respect of Council Tax and Business Rates, a Revenues Service review has been undertaken. This has identified that additional resources will be required to support the recovery process in

the future to ensure that income levels are maintained in light of the significant reforms planned within the Bill – which will be key to protect the Council’s finances as future non-collection will impact directly on the budget.

This will ensure that a robust and sustainable structure and processes are in place in order to optimise revenue collection and debt recovery. In order to provide sustainability it is proposed that additional resource be focused at the Recovery Team. The cost associated will be met from compensatory savings and from within existing budgets.

The review also considered the current charging policy at Magistrates Court as many Authorities have increased their court costs to cover the increasing cost of recovery action. Following a detailed review of charging policies of other local authorities and also those using the Stafford Magistrates Court it was evident that the recovery of court costs should be increased.

It should be noted that from 1st April 2013 the current charge will increase from £85 to £95 with a charge of £60 at summons stage and £35 at liability stage. The implications of the changes will be recovering from defaulters the true cost of dealing with the recovery process. It will aim to ensure that people and businesses that pay their Council Tax and Business Rates on time are not subsidising the late payers. This will be subject to the approval of Her Majesty’s Court Service.

RESOURCE IMPLICATIONS

If the recommendations are approved the technical reforms of Council Tax would be built into the budgetary process from 2013/14 onwards. If empty homes are brought back into use more quickly, this could also marginally increase occupancy rates and reduce the cost to the Council of homelessness.

The table below covers the additional income anticipated for the collection fund (including precepting authorities) and for Tamworth Borough Council (TBC) of c.10% after allowing for potential changes in circumstances and potential collection levels.

Existing exemption/ discount	Existing Reduction	Proposed discount	Estimated Extra Income (£)	TBC Income c.10% (£)
Second home	50%	0%	10,349	1,035
Structural Repairs up to 12 months	100%	50%	5,536	554
Empty & unfurnished 0-2 months	100%	100%	0	0
Empty & unfurnished 2-6 months	100%	0%	47,833	4,783
Empty & unfurnished 6-24 months	50%	0%	64,219	6,422
Empty & unfurnished 24+ months	50%	150% charge	<u>47,335</u>	<u>4,733</u>
	Total		175,272	17,527

LEGAL/RISK IMPLICATIONS BACKGROUND

An enabling measure has been included in Clause 9 of the Local Government Finance Bill and if enacted will amend section 11A of the Local Government Finance Act 1992 so that the Secretary of State may define a class of dwelling in respect of which an Authority may determine the range of 0% and 100%. This will

address the locally set level of discount.

Further clauses have been included in the Local Government Finance Act to allow for the other changes in the technical reforms.

SUSTAINABILITY IMPLICATIONS

None

BACKGROUND INFORMATION

Second Home Discounts

Current legislation allows the discount to be as little as 10%. Neighbouring authorities award this reduced discount and the charge is 90%. Local Authorities will have discretion to levy full Council Tax on second homes from 1 April 2013. Currently, in Tamworth, they are eligible for a 50% discount. This affects 21 homes in Tamworth. It is proposed that the Council take advantage of this new flexibility in order to promote effective use of the town's housing stock.

The estimated additional income to the collection fund from this change is £10,349 and £1,035 per annum to the Council.

Properties undergoing structural work

Currently properties undergoing structural work are eligible for a "Class A exemption". This means they are fully exempt from Council Tax when there are major repairs underway or structural alterations. This lasts for up to 12 months, or 6 months after the works are completed, whichever is the shorter.

In November 2011 there were 13 Class A exemption awards.

Under the new legislation, the Council now has the option of setting its own level of discount, between 0% and 100%. However, this needs to be balanced against encouraging property development. We also have an inspection regime to ensure that the system is operating effectively, and that Council Tax is brought in and charged at the earliest and fairest point. If we reduced the amount of discount to zero immediately, we would be introducing Council Tax bills for a landlord, homeowner or developer from the start of their projects, therefore introducing extra overheads from the beginning. It is considered that the Council should provide a reasonable but not excessive level of discount in order to promote property development, particularly supporting major upgrading and improvements to poor quality housing stock.

It is therefore proposed that the current Class A exemption which will cease as at 31 March 2013 is to be replaced by a 50% discount from 1 April 2013 which shall last a maximum of 12 months.

The estimated additional income from this change is £5,536 and £554 per annum to the Council.

Empty properties (Class C exemptions)

The policy aims for reforming the former Class C exemptions to a new empty property discount are to:

- Allow a reasonable but not excessive exemption to support standard voids between tenancies.

- Encourage faster turnaround times on empty homes.
- Reduce the number of long term empty properties.

Empty properties up to 6 months

As a result of amended proposed Government legislation the Council has prepared an option for awarding a 100% discount, but limiting this award to 2 months instead of 6 months currently implemented.

This will be more than sufficient for the vast majority of cases of turnaround times and would negate a considerable amount of challenges over very small amounts of charge and time periods with inevitable challenges about collection. This would also remove any significant burden for landlords that would potentially be passed directly onto tenants in the form of higher average rents. Significantly for the Authority whilst we would be charging the Housing Revenue Account (HRA) for properties empty in excess of 2 months, analysis shows that only 2 properties were empty over this period. This would mean an additional cost of around £2k to the HRA.

In November 2011 there were 100 properties empty for up to 6 months.

The estimated additional income from this change is £47,833 and £4,783 per annum to the Council.

Empty properties between 6 months and 2 years

Legislation is already in place to permit a charge of up to 100% for properties empty over 6 months (Tamworth Borough Council currently applies a 50% discount in these cases). Neighbouring authorities charge 100%.

Whilst we would be charging the HRA for properties, analysis shows that only 2 properties were empty over this period. This would mean an additional cost of around £1k to the HRA.

In November 2011 there were 195 properties empty between 6 months and 2 years.

The estimated additional income from this change is £64,219 and £6,422 per annum to the Council.

Empty properties over 2 years

Currently properties that are empty and unfurnished are eligible for a "Class C exemption" which gives them full exemption from Council Tax for up to 6 months regardless of change in ownership. The Government will grant us discretion to levy a premium of up to 50% on homes that have been empty for more than two years.

It is proposed that the Council takes advantage of the new discretion to levy the maximum premium of 50% on homes that have been empty for more than two years. This is in order to promote effective use of the town's housing stock and will be an important tool for the Council's empty property team in bringing those units back into use. The Council will budget for a prudent increase in income as the aim would be for all properties to be brought back into use before the 2 year deadline.

In November 2011 there were 96 properties empty for over 2 years.

The estimated additional income from this change is £47,335 and £4,734 per annum to the Council.

Other technical matters

Payment by instalments

The Government has given consideration to whether Council Tax should be payable over a 12 month period rather than 10. It has decided to leave 10 months as the default position but will allow householders a legal right to request spreading their payments over 12 months, and the Council must ensure that they are informed of this right. It is not possible to provide an estimate of financial implications at present as there are too many unknowns, however consideration will need to be given of cash flow implications, reduction of in year collection rates, and administration/ resources.

Information to be supplied with demand notices

Billing authorities will no longer be required to publish the quantity of information currently provided in the Council Tax leaflet supplied to all households with the annual demand, and most of this can now be supplied on-line. The Council will need to consider how best it wishes to communicate with householders and has increased flexibility over the means. Booklet production costs will be reduced, though not significantly as the information will still be required to be designed and printed for those who require hard copies.

Liability of Mortgagees in Possession (Current Class L exemption)

Mortgagees, usually banks or building societies, do not currently become liable for Council Tax when they take possession of a dwelling under mortgage. The DCLG sought views in its consultation paper on whether mortgagees should be liable for Council Tax where there is no one resident in the dwelling. Their response is to continue to develop the proposal, along with a commitment that the measure will not be implemented without detailed discussion with the mortgage lenders sector.

Annexes to Dwellings

The DCLG sought views on whether changes are desirable to require that where part of a dwelling has been adapted for separate occupation (e.g. a "granny annexe"), but is not in fact separately occupied, the whole property should be banded as one. The Government has decided that it will undertake a broader review of how annexes are to be supported.

Technical Changes Estimated Additional Income

The table below covers the additional income anticipated for the collection fund (including precepting authorities) and for Tamworth Borough Council of c.10% after allowing for potential changes in circumstances and anticipated collection levels.

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It is anticipated that, in addition to the above, there is likely to be an additional £672,000 to be collected as a result of the changes to the benefits scheme.

Consequently, this represents an estimated increase of £850,000 in Council Tax to be collected.

This, along with the proposed Business Rate Retention changes and the current economic situation, will result in a marked increase in collection activity – including the need to pursue further measures to recover unpaid Council Tax and Business Rates such as:

- Further bailiff action;
- Court proceedings / attendance;
- Committals;
- Attachments of Earnings & Benefits;
- Charging Orders;
- Insolvency action.

Therefore it is considered that an additional resource will be necessary to maintain prompt administration and the maximisation of income – which will be key to protecting the Council's finances as future non-collection will impact directly on the budget. It should be noted that other services have also looked at the potential impact on staffing resources.

REPORT AUTHOR

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LIST OF BACKGROUND PAPERS

Local Government Finance Act 1998

Local Government Finance Act 1992

Council Tax (Administration and Enforcement) Regs 1992

Non Domestic Rating Collection and Enforcement Regs 1989

Local Government Finance Bill 2013